Intro to SBA Lending – Part 2

Tuesday, January 24 – 11:00 a.m. Eastern

For technical assistance, contact the AT&T Helpdesk at 888-796-6118

Thank you!

U.S. Small Business Administration

West Virginia District Office

Intro to SBA Lending
Part 2

Presented by

West Virginia District Office

(Special Thanks to Richmond District Office)

U.S. Small Business Administration

Mark Your Calendar

- Intro to SBA Lending, Part III - 11:00 a.m. on January 31

  Session includes:

  Servicing Actions

  Liquidation Status Transfer

  Site Visit & Reporting Requirements

  Guaranty Purchase Requests

  Charge-Off & Referral to Treasury

Visit: https://www.sba.gov/offices/district/wv/clarksburg/resources/west-virginia-lender-resources-training for upcoming webinars and to register.

Part 2 Includes

- Equity Requirements
- Acceptable Sources of Injection
- Income Tax Verification Process (IRS Form 4506-T)
- Debt Refinancing
- Changes of Ownership
- Real Estate and Business Appraisal Requirements
- Occupancy Requirements
- Franchises

Equity Requirements

Standard Advantage over $350,000

- No minimum set by SBA.
- Lender must determine if equity and pro forma debt-to-worth are acceptable based on the factors related to that type of business, experience of the management and the level of competition in the market area.
- Lender must include in its credit analysis a detailed discussion of the required equity and its adequacy.

NOTE: Effective Nov. 1, 2016, SBA renamed the 7(a) Loan Guaranty Program to the SBA Advantage Loan Program.

U.S. Small Business Administration

Acceptable Sources of Injection

- Cash that is NOT borrowed.
- Cash that IS borrowed only if Small Business Applicant can demonstrate repayment of this personal loan from sources other than cash flow of the business (Note: The salary of the business owner does not qualify).
- Standby debt that is on full standby (no payments of principal or interest for the term of SBA-guaranteed loan) may be considered acceptable equity. A debt that is on partial standby (interest payments only being made) may be considered equity when there is adequate historical business cash flow available to make the payments.

Following may <u>not</u> be considered as Equity Injection:

- Value or cost of education; and
- Funds that are borrowed and do not meet above requirements.

U.S. Small Business Administration

Injection Verification Process

- Lenders must verify the injection prior to disbursing loan proceeds and must maintain evidence of such verification in their loan files.
- Lenders are expected to use reasonable and prudent efforts to verify that equity is injected and used as intended, and failure to do so may warrant a repair or partial/full denial.
- Lenders must submit with each purchase request where the loan authorization required an equity injection, documentation to show that they verified the equity injection. Verifying a cash injection requires the following documentation:

Injection Verification Process

- A copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the borrower's account or escrow; <u>and</u>

- A copy of the statements of account for the account from which the funds are being withdrawn for each of the two most recent months prior to disbursement showing that the funds were available; <u>and</u>

- A subsequent statement of the borrower's account showing that the funds were deposited or a copy of an escrow settlement statement showing the use of the cash.

NOTE: A promissory note, "gift letter" or financial statement is not sufficient evidence of cash injection without corroborating evidence consistent with paragraphs.

U.S. Small Business Administration

Equity Requirements

<u>Small Advantage Loans (i.e. non-Express loans of $350,000 or less)</u>

- Lender must determine if equity and pro-forma debt-to-worth are acceptable based on its policies and procedures for its similarly-sized, non-SBA guaranteed commercial loans.
- If lender requires an equity injection and, as part of its policies and procedures for its similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for SBA loans.

SBA U.S. Small Business Administration

Equity Requirements

<u>Express loan programs</u>

- Lender decides whether an equity injection is required.
- If lender requires an equity injection and, as part of its standard processes for non-SBA guaranteed loans verifies the equity injection, it must do so for SBA Express loans.

SBA
U.S. Small Business Administration

IRS Form 4506-T

SBA's Tax Verification process is used to determine if:

1. Small Business Applicant filed business tax returns; and
2. Small Business Applicant's financial statements provided as part of application agree with business tax returns submitted to IRS.

- For a sole proprietorship, lender must verify the Schedule C.
- For a change of ownership, lender must verify seller's business tax returns or a sole proprietor's Schedule C. Where there is an acquisition of a division or a segment of an existing business, other forms of verification may be used in lieu of the 4506-T (e.g. Sales tax payment records).
- Lender must submit IRS Form 4506-T to IRS to obtain federal income tax information on Borrower, or Operating Company if the Borrower is an EPC, for the last 3 years (unless Borrower or Operating Company is a start-up business).
- Lender must compare tax data received from IRS with financial data or tax returns submitted with loan application (and document the file).
- Form 4506-T should be completed as soon as possible in application process. It takes approximately 10 business days to receive a response from the IRS.

Restrictive Use of Proceeds

- Per 13 CFR 120.130 - SBA will not authorize nor may a Borrower use loan proceeds for the following purposes (including the replacement of funds used for any such purpose):
  - Payments, distributions or loans to Associates of the applicant (except for ordinary compensation for services rendered);
  - Refinancing a debt owed to a Small Business Investment Company (“SBIC”) or a New Markets Venture Capital Company (“NMVCC”);
  - Floor plan financing or other revolving line of credit, except under § 120.340 or § 120.390;
  - Investments in real or personal property acquired and held primarily for sale, lease, or investment (except for a loan to an Eligible Passive Company or to a small contractor under § 120.310);
  - A purpose which does not benefit the small business; or
  - Any use restricted by § 120.201 through § 120.203 and § 120.884 (specific to 7(a) loans and 504 loans respectively).

Policies Regarding Debt Refinancing

SBA guaranteed loan proceeds may <u>not</u> be used to refinance debt originally used to finance a loan purpose that would have been ineligible for SBA financing at the time it was originally made **<u>unless the condition that would have made the loan ineligible no longer exists</u>**.

Example: applicant business originally incurred debt to acquire a building that it leased entirely to another business (e.g., a passive investment). Now, applicant business operates an eligible small business in the building and would like to refinance the debt used to acquire the building. The refinancing is eligible, provided the other conditions regarding debt refinancing and occupancy are met.

U.S. Small Business Administration

Policies Regarding Debt Refinancing

- Debt reflected on applicant's business balance sheet may be eligible if it has been reported on applicant's business tax returns (Schedule C for sole proprietorships) showing the interest expense associated with debt and;
  - If debt to be refinanced was the first extension of credit, lender must document that the proceeds from that debt were used exclusively for applicant business and were not used for any ineligible purpose as set forth in 13 CFR § 120.130.; or
  - If debt to be refinanced was used in whole or in part to refinance a prior debt, it must be reflected on applicant business tax returns (Schedule C for sole proprietorships) <u>for the prior two full tax cycles</u>, showing interest expense associated with debt, and borrower must certify in accordance with 13 CFR § 120.130 that debt to be refinanced was used exclusively for applicant business and were not used for any ineligible purpose.

U.S. Small Business Administration

Credit Card Debt Refinancing

If debt is in the form of an outstanding balance on a credit card **issued to the small business**:

Lender must:

- confirm that credit card is in name of business
- obtaining applicant's certification that credit card debt being refinanced was incurred exclusively for business related purposes.
- If business credit card was also used for personal reasons, applicant must identify and deduct from credit card balance any purchases used for personal reasons. Loan proceeds must not be used to refinance any personal expenses.

U.S. Small Business Administration

Policies Regarding Debt Refinancing

- Debt in personal name of applicant owners such as a **Home Equity Line of Credit (HELOC) or credit card debt** used for business purposes may be eligible for refinancing if:
  - For HELOC debt:
    - applicant must certify that the amount being refinanced was used exclusively for business purposes and provide appropriate documentation.
    - For example, a sole proprietor may demonstrate the debt was used for business purposes by providing documentation that shows the interest deduction is reported on the Schedule "C" not the Schedule "A" of the proprietor's tax return.
    - If the interest deduction reported on the Schedule C includes multiple debts, then the applicant must provide a copy of the appropriate IRS Form 1098 related to the debt being refinanced.

Credit Card Debt Refinancing

If debt is in the form of an outstanding balance on a credit card issued to **an individual personally**:

Lender must:

- confirm which of the credit card obligations were used for business purposes
- document the specific business purpose of the credit card debt
- applicant must certify that the loan proceeds are being used only to refinance business expenses.
  - Documentation required for refinancing personal credit card debt includes a copy of the credit card statements and individual receipts for any business expenses **in excess of $250**. In all cases, the applicant must certify that the amount that will be refinanced was used exclusively for business expenses.

U.S. Small Business Administration

Debt Refinancing

SBA guaranteed loans may be used to refinance the following types of business debt:

- Debt (short or long term) structured with a demand note or balloon payment;
- Debt with an interest rate that exceeds the SBA maximum interest rate for the processing method being used;
- Credit card obligations used for business-related purposes;
- Debt over-collateralized based on SBA's collateral requirements;
- Revolving lines of credit (short term or long term) where the original lender is unwilling to renew the line or the applicant is restructuring its financing in order to obtain a lower interest rate or longer term;
- Debt with a maturity that was not appropriate for the purpose of the financing (e.g. a 3 year term loan to finance a piece of equipment with a useful life of 15 years);

Debt Refinancing

- Debt used to finance a change of ownership of a business under the following scenarios:
  - Refinance debt owed to a financial institution within 6 months of the change of ownership may not be processed under delegated authority
  - To be eligible for refinancing, any seller financed note must have been in place for 24 months following the change of ownership, and must have been current for the past 24 months.
- Debt that is not identified above but the Lender believes no longer meets the needs of the Small Business Applicant. Applications under this subparagraph may only be processed through Standard Advantage procedures.

Debt Refinancing

With the exception of:

- debt structured with a demand note or balloon payment;
- credit card obligations; and
- revolving lines of credit,

the new installment amount must be <u>at least 10 percent less</u> than the existing installment amount(s). If the note terms include an escalating payment structure, the new installment amount must be at least 10 percent less than the expected installment amount within the next 12 months

Refinancing Same Bank Debt

When a lender seeks to use SBA guaranteed loan proceeds to refinance its own debt:

- it must include a transcript showing the due dates and when payments were received as part of its analysis and recommendation for the prior 36 months, or the life of the loan whichever is less.
- lender must explain in writing any late payments and late charges that have occurred during the last 36 months. (Late payments are defined as any payment made beyond 29 days of the due date.)
- An SBA guaranteed loan may not be used to refinance same institution debt where there is an appearance that the lender will shift to SBA all or part of a potential loss from that same debt. (13 CFR § 120.201)

U.S. Small Business Administration

Refinancing an SBA-Guaranteed Loan

An SBA guaranteed loan can be refinanced if in addition to previous stated refinancing requirements, the debt also complies with the following:

- Procedure to refinance an SBA-guaranteed loan:
  - Contact the lender holding the existing SBA-guaranteed loan and verify that the lender has declined to approve an increase in loan amount or a second loan and the lender is either unwilling or unable to modify the current payment schedule.
  - Document the conversation in the case file, recording the date, time and person with whom you spoke, along with a short summary of the conversation.
- Procedure to refinance a same institution SBA-guaranteed loan:
  - A lender may refinance one of its own SBA-guaranteed loans only if it is unable to modify the terms of the existing loan because a secondary market investor will not agree to modified terms.
  - Must be processed in the LGPC.

U.S. Small Business Administration

Refinancing Under SBAExpress

Non-SBA loan from another lender is eligible if:

- Existing loan no longer meets the needs of applicant (e.g. current loan is a term loan and a revolver is needed); and
- New loan meets SBA's 10% increase in cash flow requirement, as applicable.

Same Institution Debt: lender may refinance its own non-SBA guaranteed debt to applicant if:

- Items above are met;
- Debt to be refinanced is, and has been, current for at least last 36 months.
- Current means a required payment has not remained unpaid for more than 29 days. A loan that has matured and not been paid within 29 days of the maturity date is not current and is not eligible for refinancing; and
- Lender's exposure to applicant will not be reduced.

Lenders must avoid any circumstances that could create a possible conflict of interest. Also, in refinancing debt, particularly credit card debt, lenders must take reasonable steps to ensure applicants are aware and certify that refinancing comprises only business related debt (SBA Form 1919, Borrower's Information Form, includes such a certification).

Existing SBA-guaranteed loans may <u>not</u> be refinanced under SBA Express. One exception: if transaction is the purchase of an existing business that has an existing SBA loan that is not with the requesting SBA Express lender.

Ownership Changes

Change of ownership may be accomplished through

- a stock purchase (including a stock redemption) or
- an asset purchase (an asset purchase will be deemed a change of ownership and must comply with all of the following requirements if Small Business Applicant(s) is purchasing all or substantially all of the assets of Seller's business or is otherwise continuing operations of the Seller's business);

U.S. Small Business Administration

Ownership Changes

If the following are met:

- Change of ownership will promote the sound development and/or preserve the existence of a small business;
- Change of Ownership Between Existing Owners: A change of ownership between existing owners may be financed under the following circumstances:
  - An existing owner(s) of the small business is purchasing the ownership interest of another owner(s), resulting in 100% ownership of the business by the purchasing owner(s); or
  - The small business is redeeming the ownership interest of an owner(s), resulting in 100% ownership of the small business by the remaining owner(s); and

U.S. Small Business Administration

Ownership Changes

- Change of Ownership Resulting in a New Owner: A change of ownership resulting in a new owner may be financed under following circumstances:
  - A small business is purchasing 100% of the ownership interest in another business;
  - An individual(s) who is not an existing owner is purchasing 100% of the ownership interest in a small business; or
  - A small business is acquiring another small business through an asset purchase.

The seller may not remain as an officer, director, stockholder or key employee of the business. (13 CFR § 120.130) (If a short transitional period is needed, the small business may contract with the seller as a consultant for a period not to exceed 12 months including any extensions.)

Ownership Changes

An SBA-guaranteed loan <u>cannot be made solely to an individual</u>. Small business must be either the Borrower or a Co-borrower as follows:

- an existing owner(s) of the small business is purchasing the ownership interest of another owner(s), resulting in 100% ownership of the business by the purchasing owner, or;
- an individual(s) who is not an existing owner is purchasing 100% of the ownership interest in a small business.;

The Note must be executed, jointly and severally, by both the individual(s) who acquires the ownership interest(s) and the small business whose ownership interest is being acquired. If the small business denies liability for the debt based on an alleged failure of consideration under applicable state law, SBA may deny liability on its guaranty.

Ownership Changes

- In a change of ownership where the small business is redeeming the ownership interest of an owner(s), resulting in 100% ownership of the small business by the remaining owner(s):
  - the small business must be the Borrower and the remaining owner(s) may be Co-borrower(s) or Guarantor(s).
- In a change of ownership where
  - A small business is purchasing 100% of the ownership interest in another business; or
  - A small business is acquiring another small business through an asset purchase;

the acquiring entity may be the Borrower or the acquiring entity and the small business being acquired may be Co-borrowers.

Ownership Changes

Lender's loan documentation must include:

- A current business appraisal (not to include any real estate) by the lender or an independent third party hired by the lender with proven experience in business valuations.
- A site visit of the business being acquired. The lender must document in its loan file the date of the site visit as well as comments.
- A real estate appraisal for commercial real estate that meets SBA's requirements.
- An analysis as to how the change of ownership will promote the sound development and/or preserve the existence of the business. If the analysis cannot support the change of ownership will be in the best interests of the business and its continued, successful operations, then the loan request must not be submitted to SBA for its guaranty

U.S. Small Business Administration

Ownership Changes

If the Borrower will be acquiring the small business's real estate in a separate transaction with a non-SBA guaranteed loan, the SBA loan must:

- receive a shared lien position (pari passu) on the real estate with the non-SBA guaranteed loan. This provision does not apply if business real estate is being financed as part of a Grow (504) project.

If you are a delegated lender (Preferred Lender Program or "PLP") and the loan request includes intangibles:

- see pages 114 of SOP 50 10 5 (I) for minimum equity injection requirements or contact your LRS.

Lender Verification of Business Valuation Financial Data. You must obtain a copy of the financial information relied upon by the individual who performed the business valuation and verify that information against the seller's IRS transcripts to ensure the accuracy of the information.

U.S. Small Business Administration

Business Appraisal Requirements

Determining the value of a business (not including real estate which is separately valued through an appraisal) is the key component in an analysis of any loan application for a change of ownership.

- Through SOP 50 10 5 (I), SBA now sets out different policies for:
  - Non-Special Purpose Properties
  - Special Purpose Properties

Non-Special Purpose Properties

- If the amount being financed (including any Advantage, Grow, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is $250,000 or less, the lender may perform its own valuation of the business being sold, unless the lender's internal policies and procedures require an independent business appraisal from a **qualified source**.
- If the amount being financed (including any Advantage, Grow, seller, or other financing) minus the appraised value of real estate and/or equipment is greater than $250,000 or if there is a close relationship between the buyer and seller (for example, transactions between family members or business partners), the lender must obtain an independent business appraisal from a **qualified source**.
- *NOTE: We have a spreadsheet which can be used to prepare business valuation!*

Non-Special Purpose Properties

A “qualified source” is an individual who regularly receives compensation for business valuations and is accredited by one of the following recognized organizations:

- Accredited Senior Appraiser (ASA) accredited through the American Society of Appraisers;
- Certified Business Appraiser (CBA) accredited through the Institute of Business Appraisers;
- Accredited in Business Valuation (ABV) accredited through the American Institute of Certified Public Accountants;
- Certified Valuation Analyst (CVA) accredited through the National Association of Certified Valuation Analysts; and
- Accredited Valuation Analyst (AVA) accredited through the National Association of Certified Valuation Analysts.
- Accredited Business Certified Appraiser (ABCA) accredited through the International Society of Business Analysts.

Special Purpose Properties

A “Special Purpose Property” is a limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the specific use for which it was built.

- If amount being financed (including any Advantage, Grow, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is <u>$250,000 or less</u>, lender may perform its own valuation of the business being sold, unless the lender’s internal policies and procedures require an independent business appraisal from a qualified source.
- When loan financing any portion of the acquisition of a business is <u>over $250,000 or if there is a close relationship between the buyer and seller</u> (for example, transactions between family members or business partners), **lender must obtain an independent appraisal performed by a Certified General Real Property Appraiser**.

Special Purpose Properties

- Appraisal must allocate separate values to the individual components of the transaction including land, building, equipment and intangible assets.
- Certified General Real Property Appraiser must have completed <u>no less than four</u> going concern appraisals of equivalent special use property as the property being appraised, within the last 36 months, as identified in the qualifications portion of the Appraisal Report.
- Each appraisal assignment under this section must be undertaken with a specific instruction for the Certified General Real Property Appraiser to conduct the appraisal in compliance with current USPAP guidelines.

U.S. Small Business Administration

All Business Appraisals

- Business appraisal must be requested by and prepared for lender (may <u>not</u> use valuation prepared for applicant or seller).
- Cost of appraisal may be passed on to Small Business Applicant.
- Scope of work should identify whether transaction is an asset purchase or stock purchase and be specific enough for individual performing business appraisal to know what is included in the sale (including any assumed debt).
- Business appraisal must include individual's opinion of value, qualifications of individual performing appraisal and their signature certifying to the information contained in appraisal.
- Any amount in excess of business appraisal may <u>not</u> be financed with SBA guaranteed loan.
- <u>Lender Verification of Business Appraisal Financial Data</u> Lender must obtain a copy of the financial information relied upon by the individual who performed the business appraisal and verify that information against the seller's IRS transcripts to ensure the accuracy of the information.

When to Obtain An Appraisal

- If application will be submitted to the LGPC (i.e. under non-delegated program), business appraisal must be submitted as part of the loan application.
- If the application will be submitted under delegated authority:
  - business appraisal may be obtained and reviewed after the issuance of an SBA loan number and prior to closing.
  - If lender is processing the application under delegated authority and requests the business appraisal after issuance of an SBA loan number, credit memorandum must include an estimate of the value of the business.
    - credit memorandum must be updated after receipt of the business appraisal to include a comparison of the loan amount and the business appraisal.

SBA U.S. Small Business Administration

Real Estate Appraisal Requirements

Commercial Real Estate

- SBA requires a real estate appraisal if the SBA-guaranteed loan is **greater than $250,000*** AND is **collateralized by commercial real property**.
- For all loans greater than $250,000 secured by commercial real property:
  - **Federally regulated lenders:**
    - must obtain an appraisal by a state licensed or certified appraiser and otherwise follow their primary regulator's FIRREA requirements for real estate appraisals. Appraisals must be in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).
    - SBA requires that completed appraisals be dated within 12 months of application for guaranty, and that federally-regulated lenders comply with SBA requirements regarding other fixed assets and additional appraisal requirements for changes of ownership as outlined in SOP 50 10(5). **No Exemption is granted under the Interagency Appraisal and Evaluation Guidelines dated December 2, 2010 for Transactions Insured or Guaranteed by a US Government Agency. (www.fdic.gov/news/news/financial/2010/fil10082a.pdf).**

U.S. Small Business Administration

Real Estate Appraisal Requirements

- **SBA Supervised Lenders** must follow these appraisal requirements.
  - Appraiser must be:
    - independent and have no appearance of a conflict of interest (such as a direct or indirect financial or other interest in property or transaction); <u>and</u>
    - either State-licensed or State-certified with following exception: when commercial property's estimated value is over $1,000,000, the appraiser must be State-certified.
  - In order for appraiser to identify the scope of work appropriately, appraisal must identify lender as client and/or an intended user of appraisal, as those terms are defined in USPAP.
  - **Lender may not use an appraisal prepared for the seller or the applicant.** The cost may be passed on to the Small Business Applicant.
  - Appraisal must be an "Appraisal Report" prepared in compliance with USPAP.
  - If loan will be used to finance new construction or substantial** renovation of an existing building, appraisal must estimate what market value will be at completion of construction.
    - After construction is completed, lender must obtain a statement from appraiser, general contractor, project architect, or construction management firm that building was built with only minor deviations (if any) from plans and specifications upon which original estimate of value was based.
    - If lender cannot obtain such a statement, then lender may not close the loan without SBA's prior written permission.

Real Estate Appraisal Requirements

Notes from previous two slides!

*SBA or lender may require an appraisal of real property by a State licensed or certified appraiser in connection with a loan for $250,000 or less, if such appraisal is necessary for appropriate evaluation of creditworthiness.

**"Substantial" means rehabilitation expenses of more than one-third of purchase price or fair market value at time of application.

Occupancy Requirements

- Construction of new building – Applicant business
  - must occupy at least 60% of rentable property for the term of the loan;
  - may lease long term no more than 20% of rentable space;
  - plan to occupy within 3 years some of the remaining space and occupy within 10 years all rentable property not leased long term.
- Purchase/Renovation of an existing building – Applicant business must occupy long term at least 51% of the rentable property.
- Loan proceeds cannot remodel or convert rentable space.
- Definition of Rentable Property - total square footage of all buildings or facilities used for business operations excluding vertical penetrations (stairways, elevators, and mechanical areas that are designed to transfer people or services vertically between floors), and including common areas (lobbies, passageways, vestibules, and bathrooms).
  - Rentable property may also include exterior space (except parking areas) that is actively used in Borrower's business operations. Examples include:
    - outdoor storage yards for general contractors, trucking companies, and moving and storage companies; or
    - boat slips and docks for marinas.
  - Lender/CDC must document in its loan file the basis for determining that the exterior space is actively used in Borrower's business operations.

This rule also applies to Grow loans.

U.S. Small Business Administration

Franchises

- Per Policy Notice 5000-1399, effective January 1, 2017, SBA:
  - Will no longer review franchise and license agreements to determine affiliation between the franchisor and franchisee; instead, SBA will require the SBA Addendum to Franchise Agreement be executed by the franchisor and franchisee for each loan involving a franchise or similar agreement;
  - Will no longer maintain an internal or external centralized listing of franchise systems where the franchisee is not considered affiliated with the franchisor for size determination (Franchise Registry);
  - Will no longer maintain an internal or external centralized listing of franchise systems where the franchisee is considered affiliated with the franchisor (formerly SBA Franchise Findings List); and
  - Will identify the specific franchise of the applicant in Etran/SBA One.

Franchises

Lenders will be responsible to ensure the applicant meets all SBA eligibility requirements. For each application involving an applicant franchisee:

- Lender must obtain the SBA "Addendum to Franchise Agreement" (SBA Form 2462/Appendix 9 of SBA 50 10 5 (I)) executed by the franchisor and applicant franchisee. No alterations to the Addendum will be accepted.
- If both the franchisor and franchisee sign the SBA Addendum, SBA will not deem the franchisor and franchisee to be affiliated. That does not automatically make the loan eligible. Lender must still determine the franchisee applicant meets <u>all</u> other SBA eligibility requirements.

Franchises

- Lenders must review all additional franchise documentation (beyond the Franchise Agreement and SBA Addendum) which the franchisor requires franchisee to sign, in order to determine that such documentation complies with SBA loan program requirements. Lenders must complete this review and must obtain a fully executed Franchise Agreement and SBA Addendum prior to any loan disbursement.
- SBA will not consider the franchise or license agreements of affiliates of the applicant, so it is not necessary to obtain the SBA Addendum signed by the applicant's affiliates.

Questions

Contact Information

Rick Haney at Richard.haney@sba.gov

(304) 623-7449

Leo López at Leo.Lopez@sba.gov or

(304) 347-5220

Or contact your local Lender Relations Specialist www.sba.gov

WV Lenders Website:

https://www.sba.gov/offices/district/wv/clarksburg/resources/west-virginia-lender-resources

U.S. Small Business Administration